

the E&O angle

Errors & Omissions issues and advice

Good Price, Bad Value

What is your agency's strategy for buying E&O insurance?

By David Hulcher

It seems like just yesterday when Reliance Insurance Company made its debut to the agents E&O Marketplace. As manager of the Big "I" Professional Liability Program, underwritten by Westport Insurance Corp., I instantly took notice and anxiously observed their strategy. They were armed with a policy form that was almost exactly the same as another carrier in the market, accomplished by something called a "me too" filing. Pricing sometimes was half of every other long-standing carrier. Reliance burst on the scene quoting coverage at unsustainable low premiums, causing many agents to make hard decisions in evaluating whether to move their E&O policy. That was five years ago. We know the remainder of the Reliance story.

Fast forward to today's agents E&O marketplace with fewer carriers, new exclusions and increased rates caused by poor results the past few years. History will repeat itself. New players will enter the marketplace—with lower rates and restricted coverage in convoluted policy forms—in an effort to buy market share. Insurance agents will face buying decisions that pit price and value against each other. Here are some of the factors you should consider:

Agent vs. Direct

Some E&O carriers may sell direct or through a managing general-underwriting facility. Even though they are selling directly to insurance professionals, it still erodes the perceived value of insurance agents. It also is important to work with an agent that understands the coverage nuances of writing professional liability. Excellent agent-underwriter relationships are important. For example, IIABA's program uses state associations as agents, providing localized service. They work closely with Westport underwriters to facilitate accessibility and responsive service.

Long-Term Access and Stability

A number of carriers have exited the agents E&O marketplace during the past several years. Some of those remaining only have targeted the states they feel are most profitable. This practice has left agencies in those states with coverage accessibility issues scrambling to find coverage. Weigh market access as part of your value vs. price comparison.

Consider the benefits of being part of a national program. For more than 20 years, the Big "I" Professional Liability Program has grown to write an estimated one-third of the total property-casualty agents marketplace through 51 state associations (including the District of Columbia). Being part of a national program assures agencies that their insurance needs are examined for the long-term because of the clout created by a large book of business. In addition, the large amount of program-experience data enables adequate rate development. When rate increases are necessary, they are shared across the country so no state receives an inordinate increase. For example, would you rather pay \$4,000, \$10,000, and \$1,000 in years one, two and three with three different carriers or pay \$5,000 a year and not have to worry about coverage gaps from changing carriers? The latter is much more palatable for budgeting cash flows and peace of mind.

More for Your Money

Obtaining your E&O insurance through the Big "I" program gives you the most bang for your buck. Here's why: your agency works with licensed staff at IIABA state associations who serve as agents for the program. IIABA staff performs much of the administration for Westport, including the initial underwriting, application entry, policy generation and delivery. Income generated from the program helps maintain the viability of both the IIABA national association and state associations, enabling them to execute on strategic goals while keeping the cost of membership manageable. Revenue from E&O and membership dues protects your interests through advocacy. IIABA educates lawmakers to pass legislation preserving the viability and prosperity of independent insurance agents and brokers.

Coverage Terms

You want the best coverage for your clients, so why not for your agency? There may be a limit on how much you are willing to pay for addition coverage benefits, but there are some things to keep in mind. Generally, the more narrow the products' focus, the more competitive the price will be. It is likely that a cheap E&O quote has a narrow coverage focus, tight terms and conditions and few competitive coverage features. For the IIABA program, a committee of member agents works with GE Commercial Insurance's Westport Insurance Corporation to monitor the changing coverage needs of policyholders in order to react quickly to meet them.

When purchasing your agents E&O policy, make sure you consider all of the factors.

A policy can have a good price, but be a bad value. **IA**

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